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April 8, 1993

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William A. Blase, Jr.
Director
Federal Regulatory

Ms. Donna R. Searcy
Secretary, Federal Communications
Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: CC Docket No. 92-24 - LIDB Investigation

Dear Ms. Searcy:

Southwestern Bell Telephone Company (SWBT) herein responds to the use of Automated Reporting Management Information System (ARMIS) data to set cost benchmarks for Line Information Data Base (LIDB) service and other new service offerings. SWBT also identifies the basis for ratemaking of the LIDB Query rate element.

The use of ARMIS data to set cost benchmarks is inappropriate and will yield misleading results. SWBT, in its LIDB filing (Transmittal No. 2149 dated November 4, 1991) and in many other tariff filings allowed to go into effect (See Attachment 1 for a partial list), has demonstrated the appropriateness of its cost and pricing methodologies used to develop new service rates. Under price caps, SWBT has consistently used its CAPCOST model to derive service specific annual cost factors and feels that it is the proper methodology to identify direct costs.

USE OF ARMIS DATA FOR ANNUAL COST BENCHMARKS

Benchmarking annual cost factors from ARMIS will create inaccuracies for the following reasons:

1. ARMIS data provides an historical representation of certain service costs. It is not reflective of anticipated costs for providing services through more advanced and cost-effective

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technologies in combination with technologies previously installed.

2. ARMIS data is not appropriate for ratemaking involving multiple services' use of common technology, because ARMIS data is not specific to the investment or plant accounts which should be examined for determination of service-specific costs. ARMIS data is not sensitive to varying unit costs among services, whether such variance results from service cost allocation or from differing consumer demand.

In ARMIS, accounts are combined and reported at the level specified in FCC Parts 36 and 69. Investment is shown as an average of several plant accounts for a calendar year. Depreciation accounts with varying rates are reported together. It is thus impossible from ARMIS data to distinguish direct costs applicable to new services.

ARMIS data is also not sensitive to varying

~~service classifications. For example, cables~~

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are, thus, service specific while the ARMIS total traffic sensitive element on the other hand includes many other accounts with varying depreciation lives bearing no direct relationship to LIDB.

SWBT'S CAPCOST MODEL YIELDS MORE ACCURATE DIRECT COSTS FOR LIDB QUERY AND TRANSPORT

ARMIS Traffic Sensitive data presented in Attachment 2 produces a direct cost factor range of 17.8% to 22.5%. SWBT's cost studies for the LIDB query and transport rate elements, depicted in Attachment 3 and 4, yield higher results primarily for the following reasons:

- 1) LIDB Validation Administration system (LVAS) investment (General Purpose Computers) has a weighted account life of seven years (14.5% factor);

- 2) Operating expenses -- maintenance, administration and ad valorem taxes -- for the SCP component of the query rate element and the STP component of the transport rate element, reflect

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only commercial credit cards, others accept only LEC calling cards, while others accept a combination of LEC, IXC and commercial credit card billing.

Based on these considerations, SWBT applied a limited amount of overhead costs (1.2580 factor) to the LIDB query direct cost to produce a rate of \$0.026 (significantly below competitive alternative rates) which SWBT believed would both attract customers and recover costs.

For the reasons stated above, SWBT believes that its cost/rate methodology for LIDB and its current procedures for specific annual cost development are correct. Further, SWBT believes that its methodology provides a more accurate and market-sensitive means of determining costs and establishing rates than the use of ARMIS data.

If you would like to discuss these issues further, please do not hesitate to call.

Sincerely,

William A. Blase Jr.

William A. Blase, Jr.
Director-Federal Regulatory

cc: Greg Vogt
Mary Brown
Mark Uretsky
Judy Argentieri
Chris Frentrup

<u>TRANSMITTAL NUMBER</u>	<u>DATE</u>	<u>SERVICE</u>
2149	11/4/91	LIDB
2155	11/27/91	0+900 Access Service
2156	11/27/91	Business Video
2211	7/17/92	DovLink
2216	8/12/92	MicroLink II 2.4 KBPs Reprice
2227	9/15/92	FTS 2000
2236	10/27/92	DS1 Term
2242	11/25/92	International Blocking
2243	11/25/92	MicroLink II Extended Access Termination
2255	1/29/93	STN Interconnection
2258	2/10/93	Transport Resource Management
2259	2/12/93	19.2 and 56KB Service

DIRECT COSTS
(\$ THOUSANDS)

1991 ARMIS DATA - SWTR

CLASSIFICATION**INVESTMENT**

TOTAL
TRAFFIC SENSITIVE

1 INVESTMENT-COE+IOT+CWF	1,759,404
2 INVESTMENT- GSF	507,143
3 TOTAL (LN1 + LN2)	2,266,547
4 COE+IOT+CWF FACTOR (LN 1/LN3)	0.776249
5 GSF FACTOR (LN2/LN3)	0.223751

NET INVESTMENT

6 NET INVESTMENT - COE+IOT+CWF	808,814
7 NET INVESTMENT - GSF	277,385
8 TOTAL NET INVESTMENT (LN1 + LN2)	1,086,199
9 NET INVESTMENT FACTOR - COE+IOT+CWF (LN 6/LN 8)	0.744628
10 NET INVESTMENT FACTOR - GSF (LN 7/LN 8)	0.255372

CAPITAL COSTS

11 PLANT SPECIFIC EXPENSE - COE+IOT+CWF	68,850
12 PLANT SPECIFIC EXPENSE - GSF	46,729
13 DEPRECIATION/AMORTIZATION EXPENSE	169,617
14 DEPR/AMORT - COE+IOT+CWF	141,934
15 DEPR/AMORT - GSF	25,796
16 FEDERAL INCOME TAXES	13,754
17 FIT - COE+IOT+CWF (LN 9 * LN 16)	10,242
18 FIT - GSF (LN 10 * LN 16)	3,512
19 STATE AND LOCAL TAXES	28,926
20 STATE AND LOCAL INCOME TAXES	1,952
21 ST & LOC INC TAX - COE+IOT+CWF (LN 9 * LN20)	1,454
22 ST & LOC INC TAX - GSF (LN 10 * LN20)	498
23 NET RETURN - COE+IOT+CWF (LN 6 * 0.1125)	90,992
24 NET RETURN - GSF (LN 7 * 0.1125)	31,206
25 DIRECT COSTS - LOWER LIMIT (LNS 11+14+17+21+23)	313,472
26 DIRECT COSTS - UPPER LIMIT (LNS 11+14+17+21+23+27+29)	395,513

OTHER COSTS

27 PLANT NON-SPECIFIC	47,269
28 CUSTOMER OPERATIONS - MARKETING	16,492
29 CUSTOMER OPERATIONS - SERVICES	34,772
30 CORPORATE OPERATIONS	69,306
31 TOTAL COSTS (LNS 11+12+14+15+17+18+19+21+22+23+24+27+28+29+30)	617,978

ANNUAL DIRECT COST**QUERY COST STUDY
(000)**

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>FACTOR PERCENT</u>
<u>CAPITAL COST</u>		
SCP		
DEPRECIATION	\$329	6.5%
COST OF MONEY	\$308	6.1%
INCOME TAX	\$140	2.8%
TOTAL CAPITAL COST	\$777	15.4%
LVAS		
DEPRECIATION	\$309	14.5%
COST OF MONEY	\$130	6.1%
INCOME TAX	\$58	2.7%
TOTAL CAPITAL COST	\$497	23.4%
TOTAL QUERY CAPITAL COST	\$1,274	17.7%
<u>OPERATING EXPENSE</u>		
SCP		
MAINTENANCE	\$409	8.1%
ADMINISTRATIVE	\$294	5.8%
AD VALOREM & OTHER TAXES	\$43	0.9%
TOTAL OPERATING EXPENSE	\$746	14.8%
LVAS		
DEVELOPMENT EXPENSE	\$845	39.8%
TOTAL QUERY OPERATING EXPENSE	\$1,591	22.2%
<u>TOTAL ANNUAL DIRECT COST</u>	\$2,865	39.9%

**ANNUAL DIRECT COST
TRANSPORT COST STUDY
(000)**

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>FACTOR PERCENT</u>
<u>CAPITAL COST</u>		
STP		
DEPRECIATION	\$105	6.5%
COST OF MONEY	\$99	6.1%
INCOME TAX	<u>\$45</u>	<u>2.8%</u>
TOTAL CAPITAL COST	\$249	15.4%
LINKS		
DEPRECIATION	\$3	6.4%
COST OF MONEY	\$2	6.2%
INCOME TAX	<u>\$1</u>	<u>2.8%</u>
TOTAL CAPITAL COST	\$6	15.4%
TOTAL TRANSPORT CAPITAL COST	\$255	15.4%
<u>OPERATING EXPENSE</u>		
STP		
MAINTENANCE	\$131	8.1%
ADMINISTRATIVE	\$94	5.8%
AD VALOREM & OTHER TAXES	\$14	0.9%